

## Message Text

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PAGE 01 STATE 202315

61

ORIGIN EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-10 ISO-00 SSO-00

NSCE-00 USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03

SS-15 ACDA-19 IO-15 SCEM-02 INT-08 COME-00 TRSE-00

/184 R

DRAFTED BY EB/ORF/FSE:FAMAU:MLB

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C O N F I D E N T I A L STATE 202315

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PAGE 02 STATE 202315

E.O. 11652: GDS

TAGS: ENRG,

SUBJECT: MIDDLE EAST OIL DEVELOPMENTS

USOEC D PASS BENNSKY OPENING OF BUSINESS

1. ADDRESSEES AT THEIR DISCRETION MAY DRAW ON FOLLOWING AS APPROPRIATE IN DISCUSSING MIDDLE EAST OIL DEVELOPMENTS WITH HOST GOVERNMENTS. PROTECT CONFIDENTIALITY OF INFORMATION INCLUDING PRICE NEGOTIATIONS.

2. STATEMENTS OUT OF SAUDI ARABIA, KUWAIT, IRAQ AND LIBYA HAVE SUGGESTED ARAB COUNTRIES USE OIL TO BRING PRESSURE ON U.S. FOR ALLEGED SUPPORT ISRAEL. HOWEVER, BEIRUT AND OTHER PRESS REPORTS THAT SAUDI GOVT. HAS CONVEYED THREAT TO USG ARE NOT RPT NOT CORRECT. ONLY ACTION TAKEN SO FAR HAS BEEN IRAQI NATIONALIZATION EXXON AND MOBIL INTERESTS IN BASRAH PETROLEUM COMPANY IN IRAQ. STEP COULD RESULT IN LOSS 160,000 B/D OF 720,000 B/D NORMALLY SHIPPED THROUGH BASRAH TERMINAL ON PERSIAN GULF. TWO AMERICAN COMPANIES HAVE DECIDED AGAINST FURTHER LIFTINGS PENDING CLARIFICATION SITUATION. ALL OTHER MIDDLE EAST AND NORTH AFRICAN OIL MOVING IN NORMAL MANNER EXCEPT AS NOTED FOLLOWING PARAGRAPH.

3. PORT OF BANIAS HAS BEEN CLOSED WITH LOSS 720,000 B/D NORTH IRAQI CRUDE. HOWEVER, PORT OF TRIPOLI REMAINS OPERATING WITH SHIPMENTS OF 480,000 B/D. THROUGHPUT COULD BE INCREASED TO 620,000 B/D PROVIDING SYRIA POSES NO OBJECTIONS (PIPELINE TRANSITS SYRIA.) TAPLINE THROUGHPUT HAS BEEN REDUCED FROM 500,000 B/D TO 250,000 B/D DUE RELUCTANCE SHIPPING ENTER PORT OF SIDON. TOTAL LOSS OIL IN EASTERN MEDITERRANEAN AREA ABOUT 1 MILLION B/D. THIS OIL NORMALLY USED IN MEDITERRANEAN BASIN REFINERIES. LOSS IS SIGNIFICANT BUT NOT CRITICAL.  
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PAGE 03 STATE 202315

4. DESPITE SUGGESTIONS BY VARIOUS ARAB SPOKESMEN THAT PRODUCING COUNTRIES USE OIL AS WEAPON, NO ATTEMPT YET MADE TO KEEP AMERICAN COMPANIES FROM CONTINUING LIFT OIL. ONLY NEW DEVELOPMENT IS APPARENT ENTRY AGIP (ITALIAN FIRM) INTO LIBYAN HOT OIL MARKET.

5. OIL COMPANIES HAVE TOLD US THAT YAMANI HAS SPOKEN

OF ESTABLISHING PRODUCTION CEILING OF 7.2 MILLION B/D, AFTER WHICH PRODUCTION WOULD BE CUT BY 5 PERCENT EACH MONTH UNTIL ISRAEL GIVES UP "OCCUPIED TERRITORIES". THIS, HOWEVER, HAS NOT BEEN CONVEYED BY SAUDI GOVT. TO USG AND IT NOT CLEAR THAT YAMANI SPEAKING ON BEHALF OF SAG. KUWAITI CALL FOR MEETING ARAB OIL PRODUCERS "TO STUDY ROLE OIL IN LIGHT PRESENT SITUATION" MAY REPRESENT ATTEMPT TAKE INITIATIVE THIS SUBJECT AWAY FROM IRAQIS AND LIBYANS. NOT CLEAR WHEN MEETING WILL TAKE PLACE BUT MAY BE IN KUWAIT SOON.

6. US WORKING HARD TO ACHIEVE END TO HOSTILITIES IN WAY CONDUCIVE TO ONGOING DIPLOMATIC EFFORTS FOR M.E. SETTLEMENT. WE BELIEVE IT WOULD BE UNFORTUNATE IF PRODUCTION REDUCED OR BOYCOTT OIL SHIPMENTS TO US OR OTHER COUNTRIES SHOULD OCCUR. NO ONE WOULD BENEFIT. HOWEVER, IF CUTBACKS OR BOYCOTT SHOULD OCCUR, WE NATURALLY HAVE CONTINGENCY PLANS TO PERMIT ADJUSTMENT FOR ANY US LOSSES WHICH MAY OCCUR. WESTERN EUROPE, JAPAN AND THE DEVELOPING COUNTRIES WILL SUFFER PROPORTIONATELY MORE THAN U.S. BY REDUCED ARAB PRODUCTION.

7. VIENNA OIL NEGOTIATIONS REACHED APPARENT IMPASSE OCTOBER 10 WHEN YAMANI FLATLY REJECTED COMPANIES' PROPOSALS. PRESENTED FOLLOWING OPEC DEMANDS WHICH HE

INSISTED COMPANIES ACCEPT NOT LATER THAN OCTOBER 12:

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PAGE 04 STATE 202315

A. IMMEDIATE 100 PERCENT INCREASE IN POSTED PRICE TO \$6.02 FOR ARABIAN LIGHT.

B. ASSURANCE THAT POSTED PRICE WILL NEVER FALL BELOW FIGURE 1.4 TIMES EXISTING MARKET PRICE AS DETERMINED BY PETROMIN SALES. (COMPANIES ESTIMATE THIS FORMULA WOULD RESULT IN 85/15 PROFIT SPLIT, WITH FREQUENT ADJUSTMENTS OF POSTED PRICES.)

C. REPLACEMENT CURRENT 2 1/2 PERCENT INFLATION FACTOR BY INDEX BASED ON CONSUMER COUNTRY WHOLESALE PRICES OR SOME OTHER NEGOTIATED AMOUNT. (YAMANI MENTIONED 10 PERCENT AT ONE POINT.)

8. EXXON AND SHELL EXPECT MEET WITH YAMANI MORNING  
OCTOBER 12 TO PRESENT ALTERNATE APPROACH INVOLVING JOINT  
STATEMENT OF PRINCIPLES, WITH PRICE NEGOTIATIONS AFTER  
OPEC MEETING KUWAIT. COMPANIES HOPE THAT ACCEPTANCE THIS  
APPROACH WOULD PROVIDE RESPITE DURING WHICH TIME  
THEY COULD FORMULATE NEW PRICE PROPOSALS AND CONSULT WITH  
CONSUMER GOVERNMENTS. IF OFFER UNACCEPTABLE TALKS ARE  
LIKELY TO BREAK DOWN AND OPEC MAY MOVE TOWARDS UNILATERAL  
IMPOSITION ITS TERMS. KISSINGER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 11 OCT 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** garlanwa  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973STATE202315  
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**Document Unique ID:** 00  
**Drafter:** FAMAU:MLB  
**Enclosure:** n/a  
**Executive Order:** RR  
**Errors:** N/A  
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**Locator:** TEXT ON-LINE  
**Office:** ORIGIN EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** garlanwa  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 22 AUG 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <22-Aug-2001 by kelleyw0>; APPROVED <05-Nov-2001 by garlanwa>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** MIDDLE EAST OIL DEVELOPMENTS  
**TAGS:** ENRG  
**To:** OECD PARIS EC BRUSSELS JIDDA KUWAIT TEHRAN TUNIS ABU DHABI LAGOS JAKARTA CARACAS  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005